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Pensions & Investment Age

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Project gets $160 million from U S WEST

By John Covaleski

JERSEY CITY, N.J. — In a significant move into developmental real estate, the $6.3 billion U S WEST Inc. pension fund will invest about $160 million in an unfinished office project in Jersey City, just across the Hudson River from Manhattan's financial district.

The Harborside Financial Center is only 35% leased for its projected 2 million square feet of office space. Pension funds usually shy away from such deals because of the additional risk involved, preferring more fully leased properties.

While some funds have gotten their feet wet in developmental projects, most do it by sharing the risk with other investors.

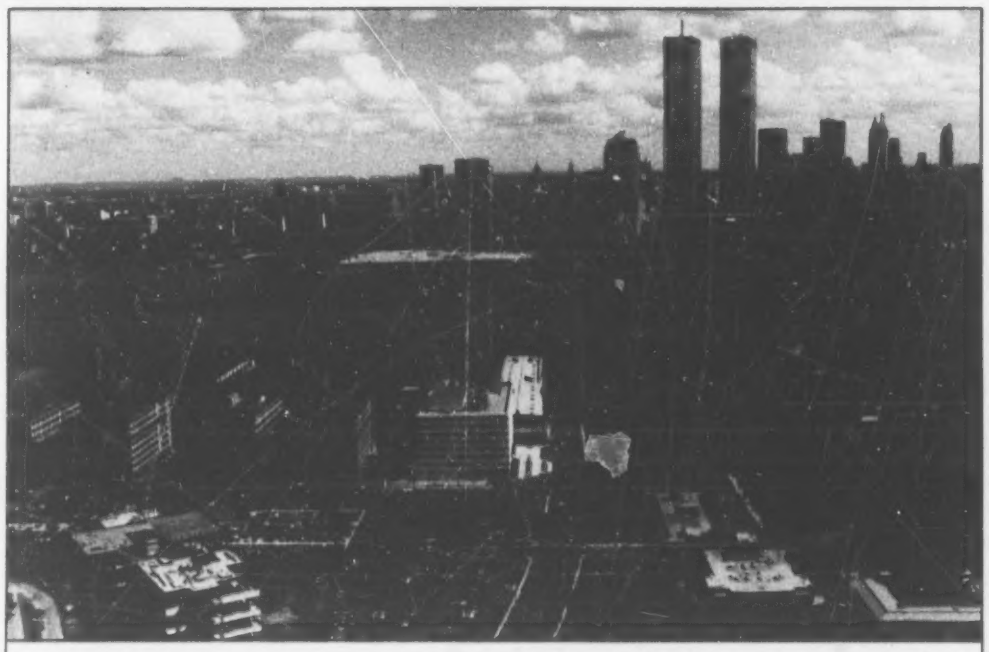
In this case, however, the Englewood, Colo.-based U S WEST pension fund is the sole equity investor in the 50-acre project designed to lure Wall Street back-office operations from Manhattan. In addition, the project will be leveraged through construction loans.

The fund should be able to double the value of its investment during the next four years, without taking on more risk than it would through a joint venture arrangement, said Stephen Furnary, a principal with Jones Lang Wootton Realty Advisors, New York, the pension fund's adviser on the project.

Mr. Furnary predicted average annual returns of between 17% and 23%.

The fees Jones Lang Wootton will receive for developing, managing and leasing the development will be about 5% to 10% higher than real estate investment advisement fees on typical projects.

This is because the fund will get the entire return and won't have to split it with a developer, said John A. Weisz, principal and chief investment officer of Jones Lang Wootton.



Harborside Financial Center (the complex along the river in the left foreground of the photo) is a developmental real estate deal for U S WEST Inc. The pension fund is the sole equity investor in this project in Jersey City, N.J., which is across the Hudson River from Manhattan.

U S WEST put up $60 million in cash and assumed a $60 million construction loan. In addition, $120 million — two-thirds of it in loans — will be invested by U S WEST in the project's renovation during the next 24 months.

Harborside is a former railroad freight warehouse, which a partnership has been converting into office space since 1982. Some 700,000 square feet has been converted thus far by the partners, Michael W. Sonnenfeldt and David M. Fromer. The project also includes 50 acres of waterfront land and two piers directly across from Manhattan's World Trade Center.

Plans by Jones Lang Wootton and the U S WEST fund call for renovating the entire warehouse property into back-office and re-

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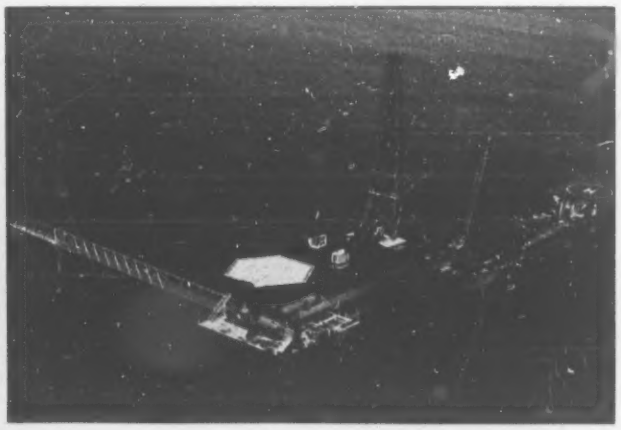
Inside:

TERMINATIONS: A thirst for cash and improved earnings has prompted almost 30 oil service companies, which are experiencing an economic slump, to terminate overfunded pension plans — page 3.



U.S. widens bid for surplus

NASA, Energy Department seek piece of pension pie

By Barry B. Burr

WASHINGTON — The National Aeronautics and Space Administration and the Department of Energy want a share of the surplus assets from pension plans terminated by their contractors and credits or refunds for contributions to fully funded plans.

The agencies' moves come on the heels of similar action by the Department of Defense. They are a sign that the effort to recover overpayments of pension contributions in contracts is sweeping throughout government departments.

"You are dealing with a hot issue right now," said John J. Edmondson, the Department of Energy's director of employee compensation benefits who oversees contractors' pension expense.

Speaking of contractors with plans at the full-funded status, Robert Lynch, NASA price analyst said, "We have a good reason to believe it's a pervasive problem." Mr. Lynch sits on two government committees that oversee cost and accounting principles for contractors.

The effort originated with the Department of Defense a few months ago. The department has shared in, or is seeking to share in, several reversions from the termination of overfunded pension plans. The department also has received credits for contributions made to so-called fully funded plans (*Pensions & Investment Age*, Nov. 10 and Nov. 24).

In a separate matter, the General Accounting Office issued a report critical of the timing of contractors' funding of pension costs.

The report, sent to Secretary of Defense Caspar W. Weinberger, found contractors often defer funding of their pension plans, even though the costs already have been allocated to the Pentagon.

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Soft-dollar use still a puzzle

By Chuck Paustian

Pension funds and their money managers still are attempting to understand the implications of statements by the Department of Labor and the Securities and Exchange Commission that could drastically affect the use of soft dollars to pay for investment services.

More than six months after the two statements were released, many pension executives remain unaware of them, and money managers and consultants disagree over their interpretation and their likely impact.

While the statements didn't outlaw the use of directed brokerage commissions, the guidelines regulating their use were tightened.

Both agencies stipulated directed brokerage arrangements are permissible only if best price and best execution are obtained: The burden of proof of best execution resides with the pension executive and the investment manager.

The Department of Labor's technical bulletin states soft dollars can't be used to pay for services, such as performance measurement, unless the pension plan's assets would have been used to pay those services.

The SEC's interpretive release said investment managers can't aggregate managed accounts in

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Venture, LBO funds attract 4 investors

By Trudy Ring

The U S WEST Inc. pension fund, the Massachusetts Pension Reserves Investment Trust, the Minneapolis Employees' Retirement Fund and the Ryder System Inc. pension fund have made commitments to venture capital or leveraged buy-out partnerships.

The commitments total $25.5 million without U S WEST's; officials there wouldn't reveal the amount they allocated.

Commitments by the first three funds are part of ongoing venture capital or leveraged buy-out programs; Ryder System's commitments apparently are its first, although company officials were not available to confirm this.

The $6.5 billion U S WEST fund, Englewood, Colo., and the $1.7 billion Massachusetts PRIT, Boston, both committed to Boston-based TA Associates' Media Communications Limited Partnership.

TA officials said the U S WEST fund is one of the larger investors. Dan Kelly, PRIT director of program development, said his fund committed $10 million.

U S WEST has made commitments to several venture capital partnerships, but its exact allocation was not available. PRIT has less than 1% of its assets in venture capital and leveraged buy-outs.

The media partnership will acquire companies in the cable and broadcast television, radio, outdoor advertising, paging, cellular telephone, specialty publishing and security monitoring industries, Mr. Kelly said. He characterized the partnership's investments as being closer to leveraged buy-outs than venture capital. But David Braman, U S WEST manager-trust investment management, described them as venture-oriented, with the general partners taking an active role in the companies acquired.

David Croll, managing general partner of the media fund, said the partnership actually is a hybrid, using some of the management techniques of venture capital and some of the financial structure of leveraged buy-outs.

The partnership will concentrate on developing companies, he said: "We do not buy mature properties and leverage the dickens out of them."

The fund had an initial closing Nov. 26 with $200 million in commitments, more than half of that from tax-exempt institutions, Mr. Croll said. Besides the U S WEST and Massachusetts funds, these investors include several universities and money managers investing on behalf of pension funds. The partnership will take commitments for another 90 days, with a maximum of $50 million in additional funds to be accepted, he said.

Mr. Kelly added PRIT officials were impressed with the partners' track record. Wilshire Associates, Santa Monica, Calif., helped screen the fund for PRIT.

U S WEST also made a commitment of undisclosed size to Davis Venture Partners, Tulsa, Okla., which will provide expansion capital for companies, primarily in the Southwest. Davis also was one of three funds receiving commitments from Ryder System.

The $750 million Minneapolis employees' fund committed $3 million to Superior Ventures and $2 million to Minnesota Seed Fund II, both of Minneapolis, said John Chenoweth, executive director. Both are venture capital funds focusing on investments in Minnesota.

Other tax-exempt investors in Superior Ventures, managed by IAI Venture Capital Group, Minneapolis, are the Control Data Corp. and Pillsbury Co. pension funds, both of Minneapolis; and

"For those that have that capability (for direct venture capital investments), there is a very attractive payback."
— John Chenoweth, director, Minneapolis Employees' fund

the Minnesota State Board of Investment, Bush Foundation and University of Minnesota endowment fund, all of St. Paul (*Pensions & Investment Age*, Sept. 29). The Control Data fund also is an investor in Minnesota Seed Fund II (*P&I Age*, Nov. 24).

The Minneapolis employees' fund also committed $6 million to the Regent Corp. Partnership, Denver, which Mr. Chenoweth described as a hybrid venture capital-leveraged buy-out fund. It will provide capital for acquisition of security monitoring systems.

The retirement fund put another $1.5 million into direct venture capital investments. The fund has made direct placements with high-technology companies around the nation, Mr. Chenoweth said.

The fund usually makes direct investments in companies in which one of its limited partnerships also is an investor, he said. Direct venture capital investing, rare among pension funds, is not for everyone, he said.

"It requires appropriate internal staffing to do that," he said. "For those that have that capability, there is a very attractive payback. It also strengthens the partnership if some of the partners have the capability to do that."

The Minneapolis fund has about 3% of its assets in venture capital and leveraged buy-outs. About three-fourths of that is in limited partnerships, the remainder in direct placements.

The $122 million Ryder System pension trust, Miami, committed $1 million to each of three venture capital partnerships earlier this year, according to a fact sheet provided by the company. The three are Lawrence Venture Associates, New York and Nashville, Tenn.; Venture Capital Fund of New England II, Boston; and Davis Venture Partners.

These appear to be the fund's first venture capital commitments, but company officials weren't available to elaborate on the fact sheet.

The Lawrence fund focuses on health care and electronics and the New England fund on high-technology companies in that region. All have attracted numerous tax-exempt investors. ■

Harvard taps oil and gas

Endowment commits $20 million to Harken deal

By Fred Williams

CAMBRIDGE, Mass. — The $3.5 billion Harvard University endowment is pumping up to $20 million into acquiring oil and gas reserves in its first direct investment in oil and gas.

Michael Eisenson, partner with Harvard Management Co., Cambridge, which manages the endowment, said the money will be invested over the next two years with Harken Oil & Gas Inc., Dallas, in separately negotiated acquisitions of oil and gas reserves and, secondarily, in energy-related companies.

The deal could be considered "bottom fishing" to a certain extent, said Mr. Eisenson, given the current depressed state of the petroleum industry throughout the nation, and particularly in Texas.

"We think over the next five to 10 years, today's prices will look like a relative minimum. We may not be at an all-time bottom, but gas prices are relatively inexpensive right now," he said.

The $20 million commitment by Harvard to oil and gas is centered on natural gas acquisitions, he said, "but we'll be open to a range of things from production to exploration."

Tax-exempt institutions have stayed away from direct investments during the free-fall in oil prices. Asked why Harvard is interested, Mr. Eisenson said the investment is long term, and he expects prices to increase and demand for natural gas to grow.

"I think, fundamentally, we're convinced that natural gas prices can't remain below replacement costs. Prices have to rise and will have to rise significantly if the United States is to maintain its reserve base. The reserve base is declining fairly rapidly, and it's a reasonably high level of importance to the United States that it have energy assets.

"So we think it's cheap now. Properties valued at or near today's prices for natural gas will provide a nice return for those willing to wait five or 10 years to realize those returns.

"It is the nature of this fund that allows us to take that longer term approach," said Mr. Eisenson.

In another development, Harken officials said an agreement has been reached to sell 1,351,351 newly issued shares of Harken restricted common stock for $2 million cash in a private placement to Aeneas Venture Corp.

Aeneas is an investment affiliate of Harvard University, associated with Harvard Management, dedicated to non-public market investing, such as direct investments or private placements.

Donald Beane, also a partner with Harvard Management, has been appointed to the Harken board of directors. Harken is a publicly held independent oil and gas company.

Staff altered tax bill wording

By Richard Gillespie

TAX REFORM

WASHINGTON — Congressional staff members made unauthorized changes in critical wording affecting pension plans after the House-Senate conference committee had approved the 1986 Tax Reform Act but before it became law, employee benefit experts charge.

If not reversed, the change could increase administrative costs, and even the cost of plan funding, for many companies.

It also could create inequities among plans, depending on how various companies respond.

In the final act, wording in the section on the integration of plans with Social Security was changed, substituting "compensation" for "Social Security benefit," which in effect alters the formula for integrated plans.

Integrated plans are pension plans that coordinate a payout with Social Security to provide a final benefit.

In particular, the change most affects offset plans, which now give a formula for a final benefit, then express an offset as a percentage of the Social Security benefit.

A significant number of salary-based pension plans are offset-type plans, according to Myron Hochheiser, a benefits consultant with Buck Consultants Inc., New York.

One analyst estimated the number of offset plans to be between 40% and 60% of all salary-based plans.

"The surprise change could have a significant impact on employers and necessitate a major revamping of their (offset) plans," according to a statement put out by Buck Consultants, which first noticed the change.

An offset plan might, for example, specify a pension benefit of 1.5% of compensation per year of service, from which is deducted a percentage of the Social Security benefit.

Under the new law, which goes into effect for plan years beginning 1989, a formula limits the offset to three-quarters (or less) of a percentage point of final average three-year pay up to a maximum of the Social Security wage base for each year of service (with a maximum of 35 years).

The original wording stated the limit as a percentage of Social Security benefit rather than final pay.

If there were a consistent relationship between average compensation and Social Security benefit, the change would have been simply a different way of stating the same concept.

No such relationship exists, so distortions must occur, said Mr. Hochheiser.

At the time of the change, conference committee staff members were drafting the bill into statutory wording in what is supposed to be a purely mechanical process. Experts with the Internal Revenue Service were known to be helping the staff members because the area is so technically complex.

"As far as we can tell, it was a job given to staff and the conference committee's instructions to

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Opinion

Pension facts vs. mythology

MYTHS DIE HARD. Facts are the only weapon that can be used against myths, and even facts very often cannot slay them, merely wound them.

One myth that has survived for more than a decade in the face of contrary evidence is that the nation's pension funds were buying an ever-increasing share of the nation's companies. This would lead inevitably to pension fund socialism, the analysts declared.

But as Sportin' Life cautioned in "Porgy and Bess," "It ain't necessarily so."

The latest figures on the assets and holdings of the nation's pension funds suggest they own about 18% of all equities in the U.S. economy — a slight decline from the 20% estimated a decade ago.

The figures were compiled by the Employee Benefit Research Institute in conjunction with the Trust Universe Comparison System and the Federal Reserve System.

The figures show there is no danger of pension funds devouring America's corporations.

To be sure, pension funds as a group own substantial positions in some of the nation's largest companies. For example, institutions, including pension funds through their investment managers, own 60% of CBS Inc., 78% of CIGNA Corp., 51% of CPC International, 52% of Emhart Corp., 53% of GTE Corp. and 66% of Manufacturers Hanover Corp.

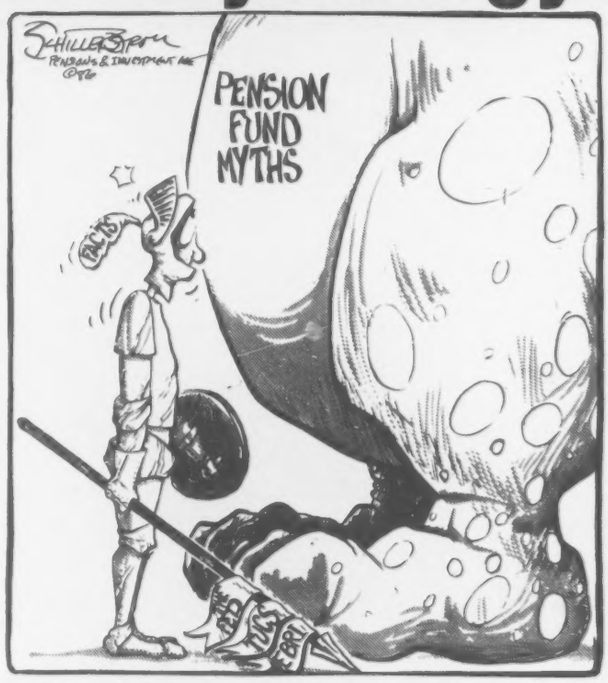
But there is no great tidal wave of pension fund ownership of corporations sweeping over the economy.

The figures also showed that, contrary to another myth, companies were not stashing billions of unneeded dollars in their pension funds. Benefit payments from private pension funds exceeded contributions by $81.5 billion in the two-year period ended June 1986.

Some of the provisions of the recent tax reform law, and other laws before it, seem to suggest Congress believes companies are building giant slush funds in their pension plans.

This impression has no doubt been fostered in part by the termination of overfunded pension plans by a smattering of companies seeking to recover the surplus assets.

If Congress had had the new figures on pension fund assets and growth trends when drawing up the tax law, the pension provisions of the new law might be different.



Unfortunately, although Congress mandated the gathering and dissemination of statistics from the 5500 Form filed by each pension plan each year, it never provided the Labor Department with funding for the project.

As a result, it has flailed in the dark, unarmed against the myths, possibly damaging the nation's non-federal retirement system in the process.

The facts that should be produced by EBRI, TUCS and the Federal Reserve System should help minimize damage in the future.

Quick action needed in Boesky case

THE SECURITIES AND EXCHANGE Commission must expedite its investigation of insider trading violations revealed in the Ivan Boesky case.

Drexel Burnham Lambert Inc. and a number of Wall Street executives, none of whom have yet been charged with wrongdoing, have been put under a cloud of suspicion by rumors of subpoenas and taped conversations.

Indeed, at times it seems the SEC is conducting its investigation by using rumor to flush its quarry into the open as hunters use dogs to flush quail.

Unfortunately, the rumors also are flushing investors from the markets, particularly the junk bond market. The junk market, although it has been used by raiders to acquire companies to the dismay and disapproval of some, serves a useful purpose.

Many of those takeovers have paid off handsomely to shareholders. And junk bonds have made it possible for entrepreneurial executives to buy a piece of a conglomerate in an attempt to run it more efficiently. When the dust clears, academics may find junk bond financing has helped U.S. industry become more efficient and competitive.

It would be unfortunate if Drexel Burnham and the executives who pioneered junk bond financing were innocent of any wrongdoing and yet were severely wounded by the SEC investigation because it was allowed to drag on too long.

At the very least, it can curb the rumors.

Letters to the editor

Chart data wrong

To the Editor: The International Directory published Aug. 4 incorrectly listed Bessemer Trust as having $507 million in U.S. tax-exempt assets under management for international accounts in one of the charts.

The chart that appeared on page 16 should have listed Bessemer as managing $101 million in international assets for ERISA clients.

The $507 million shown are the total assets under management for ERISA clients.

Bessemer's entry in the directory on page 18 is stated correctly.

Robert C. Elliott
Senior executive
vice president
Bessemer Trust Co.
New York

On Wyatt study

To the Editor: Regarding your Oct. 13 article, "Industrial firms increase pension benefits," regarding the Wyatt study.

First, I want to thank you for all the good information you provide to us practitioners.

The comment that I have to make regarding that article is twofold.

- For those of us whose pensions are related to "final average salary" and who might want to compare ourselves to the leaders, it would have been beneficial to understand exactly what the $39,600 final average salary is.

Is it the last year's pay, or is it the average of a certain number of prior years' pay?

Based on the later reference ". . . , $30,566, which will replace 77.2% of final pay . . . ," it would seem that it was the last year's pay.

- It would have been valuable, I think, if the article had distinguished between "retirement income" and "pension benefits."

Many companies, including those listed, provide "pension benefits" under defined benefit pension plans, and provide additional benefits (considered retirement benefits) under a variety of defined contribution plans (such as profit-sharing plans, 401(k) plans, thrift plans, etc.).

Employers and employees look at the total picture.

I believe your article should have clarified whether or not it was looking at the total picture.

I suspect it was not.

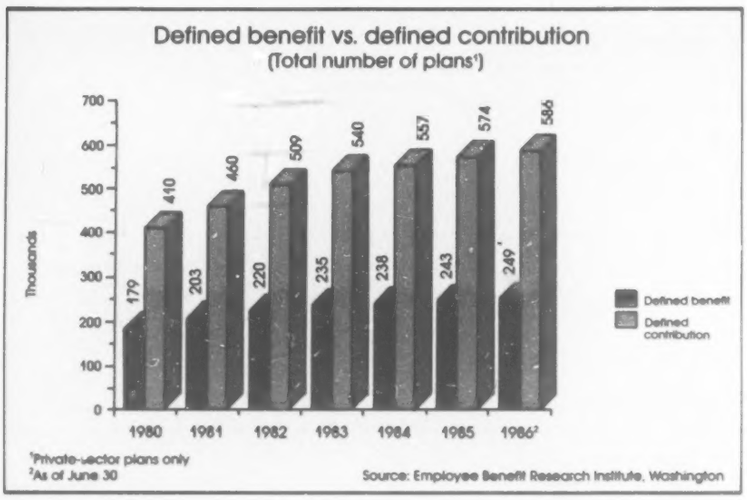
Sorry for the negative comments.

You are ordinarily such a beneficial resource about what is going on in my business.

Keep up the good work.

Kevin J. Gordon
Corporate director-benefits
Barnes Group Inc.
Bristol, Conn.

Pensions & Investment Age



Defined contribution plans

Defined contribution to survive tax reform

By Chuck Paustian

Corporations will continue to establish defined contribution plans despite some provisions of the Tax Reform Act of 1986, but defined benefit plans will remain the primary retirement vehicle used by corporations, benefit experts predict.

The tax legislation might slow the growth of defined contribution plans because of the restrictions and limitations placed on these plans under the new law.

But many employee benefit consultants said one area of continued growth of defined contribution plans will be among small- to medium-size companies.

Large corporations, the consultants said, will use defined contribution plans mostly to supplement their existing defined benefit plans.

The benefit experts also said the role of defined contribution plans will change to one of retirement savings from one of short-term capital accumulation.

Statistics compiled by the Employee Benefit Research Institute, Washington, show the growth of the number of defined contribution plans has slowed, but remains steady at about 2% to 3% annually.

At the end of 1985, the number of defined contribution plans had increased about 3% to roughly 574,000, from the 557,000 plans as of Dec. 31, 1984. The 1984 figure marked a 3% increase from the 540,000 plans as of the end of 1983.

The growth in the number of defined benefit plans has progressed at a similar rate.

At the end of 1985, the number of defined benefit plans had increased to about 243,000, up 2% from 238,000 as of Dec. 31, 1984. The 1984 figure was a 1% increase from the 235,000 plans as of the end of 1983.

The EBRI data also showed the growth of defined contribution assets continues to outpace the growth in defined benefit assets.

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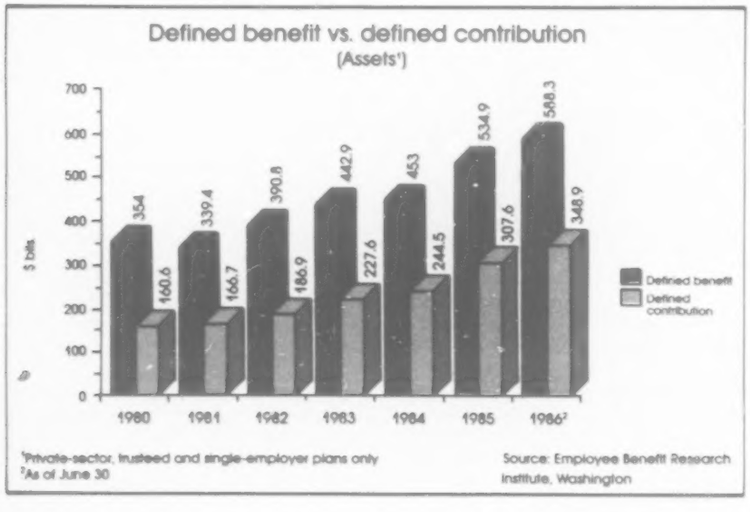

Park Davidson of Burlington Industries applies portfolio insurance to the firm's fund. Halliburton, at which Nathaniel Duffield is head of profit sharing, is considering using dynamic hedging.

Portfolio insurance is gaining exposure

By Trudy Ring

While pension fund executives have applied dynamic hedging primarily to defined benefit plan funds, their interest in using it for defined contribution plans is increasing.

Burlington Industries Inc., Greensboro, N.C., for example, is applying the strategy to the roughly $20 million equity exposure of the $105 million defined contribution plan.

In dynamic hedging, also known as portfolio insurance, a manager adjusts a portfolio's market exposure, usually through the short sale of futures, when the portfolio's value declines. The goal is to provide a minimum rate of return while permitting capture of as much upside gain as possible and to do so without forecasting. It can be applied to bond portfolios, but most commonly has been used for equity accounts.

Tax-exempt assets totaling $45 billion are hedged in this manner; those in the industry said most of this is for defined benefit plans, but an exact breakdown was not available.

Burlington Industries officials decided to try portfolio insurance on the defined contribution plan because the plan is one of two that provide retirement benefits for its hourly workers, said Park Davidson, assistant vice president-finance. The other is a defined benefit plan, with the company bearing the investment risk, but because benefits from the profit-sharing plan depend on investment performance, the company decided to try dynamic hedging on it.

"We felt that was an appropriate portfolio to start with," he said.

J.P. Morgan Investment Management Inc., New York, is providing the hedging; Alliance Capital Management Corp., New York, manages the equity allocation in an index fund. The hedging program aims for a minimum return of −5% over a year.

Burlington Industries hasn't used dynamic hedging in its defined benefit plans, but might do so, depending on how this program goes, Mr. Davidson said. "We'll let time do the deciding for us," he said.

A fund that has used dynamic hedging for defined contribution plans for some time is Trans World Airlines Inc., New York.

TWA has used the strategy since August 1984 to protect the equity portion — $634 million — of a $900 million defined contribution plan. It is not TWA's primary retirement plan, but because benefits from the plan depend on investment performance, the company uses portfolio insurance to reduce volatility.

Leland O'Brien Rubinstein Associates Inc., Los Angeles, is TWA's dynamic hedging manager.

Pension officials at Halliburton Co., Duncan, Okla., are considering using portfolio insurance. The company's three major retirement plans, with assets of $1.8 billion, are all defined contribution plans.

"If portfolio insurance really works, there could be a place for it in defined contribution plans," said Nathaniel Duffield, chairman of the profit-sharing committee.

Halliburton likely would use the strategy only for employer contributions, which amount to slightly more than $1.1 billion, Mr. Duffield said. The employee contributions, which are in a 401(k) plan and in voluntary after-tax contributions to other plans, are largely in guaranteed investment contracts.

The committee probably will not make a decision on portfolio insurance for a few months, Mr. Duffield said. "We've been looking at it since about early July," he said. "We're just not convinced at this time that it's exactly what we want to do. I'm sure there are some pros and cons."

John Steinbach, assistant treasurer and investment manager at K mart Corp., Troy, Mich., is looking at offering an equity fund hedged with portfolio insurance as an investment option for the company's $500 million savings plan. He hasn't decided whether to recommend it to the pension committee, though.

Explaining the strategy to employees could be a problem, he said. "I think that's part of where our hangup may be," he said.

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Well-versed in the alternatives

Profit sharing main plan at American Greetings

By Fred Williams

CLEVELAND — Employee benefit specialists at American Greetings Corp. feel the company has developed an unusual marriage between the traditional defined benefit pension plan and the more contemporary defined contribution plan.

At American Greetings, the approximately $135 million profit-sharing plan is the primary retirement plan and the approximately $8.5 million defined benefit plan is the supplemental, or floor, plan. At most other companies, the situation is reversed.

Tim Strauch, manager of retirement and stock administration at American Greetings, said the company's interesting approach protects its more than 7,400 employees from down years for the greeting card company.

"The profit-sharing plan is the primary retirement fund, but the defined benefit plan (known as the Retirement Income Guarantee Plan) provides a floor protec-

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Contribution . . .

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Defined contribution assets increased 26% to $307.6 billion as of Dec. 31, up from $244.5 billion at the end of 1984. Defined benefit assets grew 18% to $534.9 billion at the end of 1985, up from $453 billion as of Dec. 31, 1984.

Despite the gains made by defined contribution plans, benefit experts contacted by *Pensions & Investment Age* agreed defined benefit plans will remain the primary retirement vehicle among larger corporations.

"Defined benefit plans can accomplish things for a company and an employee that a defined contribution plan can't," said Frederick Rumack, director of tax and legal services at Buck Consultants Inc., New York, referring to the guaranteed retirement benefits and the ability of the employer to withdraw surplus assets.

Melvin W. Borleis, vice president and director of benefit consulting at A.S. Hansen Inc., Deerfield, Ill., added, "The most efficient way to provide retirement income is through defined benefit plans.

"It's still the cornerstone for the retirement programs for most companies," he said.

In fact, some of the provisions of the new tax law might slow some of the growth of defined contribution plans, especially 401(k) plans.

"I see the value of 401(k) plans can diminish in the future," said Gary A. Pines, an actuary with Towers, Perrin, Forster & Crosby, Chicago. "That's through the 10% excise tax, the lower tax brackets and after-tax contributions."

Congress placed a 10% excise tax on most early withdrawals from defined contribution plan accounts. In addition, the lower personal tax brackets give employees less of an incentive to defer taxes on a portion of their income.

Congress further reduced the attractiveness of employee contributions to a defined contribution plan by changing the way after-tax contributions are used in calculations to determine the maximum amount allocated to the employee's account in any year.

Previously, the lesser of one-half of total after-tax contributions or contributions in excess of 6% of W-2 pay was used to calculate the maximum amount allowable, which is the lesser of 25% of W-2 pay or $30,000.

"Now every dollar of after-tax contribution counts as an annual addition," said Mr. Rumack.

"You'll probably have less money going into these plans than you have had in the past because of these restrictions and limitations," he said.

While the star of defined contribution plans might be dimmed, it has not been extinguished.

"When you talk about smaller companies, I think defined contribution is still the way to go," said Mr. Pines.

Arthur Tepfer, director in the Chicago office of REBC Associates, an actuarial and benefit consulting division of Laventhol & Horwath, said smaller companies are re-examining the advantages of defined contribution plans.

"The general philosophy in the smaller, closely held companies is to focus on the tax benefit aspects of retirement plans in general, rather than the employee benefit aspects," said Mr. Tepfer.

"The plans are designed along those lines to 'shelter' income that otherwise would be taxed," he said.

The new tax law removes some of the tax advantages of defined benefit plans, he said. The reduction of the maximum benefit allowable from a defined benefit plan, for example, could put some funds in a fully funded status and remove the deductibility of the sponsor's contributions.

Though defined contribution plans will gain popularity among smaller companies, Mr. Tepfer emphasized defined benefit plans will not disappear.

"I'm not trying to indicate that defined benefit plans are dead. I'm trying to say that defined contribution plans will be more closely scrutinized for their wealth accumulation prospects and because there are no liability problems," he said.

The growth of defined contribution plans also should be bolstered by large corporations looking to supplement their defined benefit plans.

"I think what you'll be seeing in the future is companies basically offering a combination of both defined benefit plans and defined contribution plans," Mr. Rumack said.

A number of large companies — Allied-Signal Inc., Morristown, N.J.; Texas Instruments Inc., Dallas; and Owens-Illinois, Toledo, Ohio — already use defined contribution plans to supplement or improve the retirement income from their defined benefit plans.

"Our feeling has been that the defined benefit plan offers more security to the employees. They can really count on the amount of money that they're going to be getting," said Irene Leary, manager-employee benefit fund investments at Texas Instruments.

"As long as there is the incentive and the need for personal savings, and I think there always will be, then they (defined contribution plans) will remain important," added Ronald C. Boller, director-benefit finance at Owens-Illinois.

Benefit consultants agreed the key to the survival of defined contribution plans is a shift to viewing the plans as a retirement vehicle and away from viewing them as a short-term savings account.

"The Congress was deliberate in a couple things. One thing was to take the tax code out of the financial and investment decisions," said Mr. Pines.

"Two, they'll only give tax incentives for retirement savings, not short-term savings. Almost everything revolves around those two policies," he said. ■

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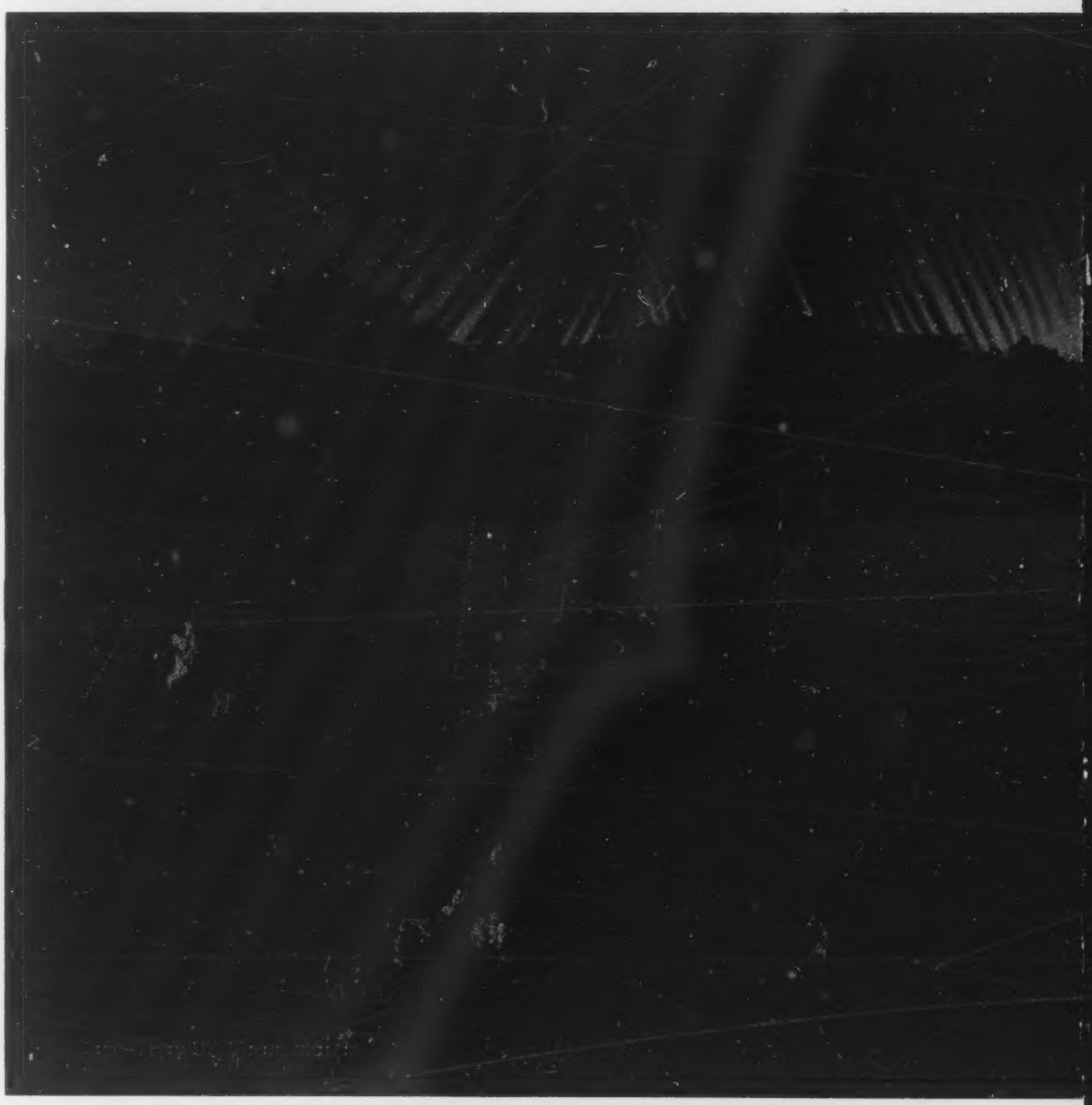

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